# Tax Increment Financing (TIF)

## Description

Tax Increment Financing (TIF) enables local economic development officials to collect the property tax revenue attributable to increased assessed value resulting from new investments within a designated area (TIF district). Once a TIF district is established the property tax revenue attributable to new assessed value within a the district accrues to the redevelopment district rather than the traditional taxing units (schools, civil city, township, county etc).The new revenue can be used to pay for infrastructure or other improvements within the designated area. Typically, TIF revenue is used to retire debt incurred to fund infrastructure or other improvements but it has also been used on a cash basis. While the vast majority of TIF districts in Indiana incur debt, many communities have used any additional TIF revenue beyond that necessary for bond service to make further infrastructure investment in the TIF district.

In Indiana and many other states, TIF districts can be designated as either a redevelopment area or as an economic development area. A redevelopment area requires the finding of blight and is typically located in an older urban area or brownfield. An economic development area requires the finding of significant economic benefit, jobs and private investment, for the community. Greenfield development is typically located in a previously undeveloped area for uses such as a new industrial park).

The first TIF districts in Indiana were redevelopment area TIFs in the mid 1980s in Fort Wayne, South Bend, and Indianapolis. The use of an economic development area designation was first permitted in 1989. Of the 101 TIF districts that responded to a Center for Urban Policy and the Environment survey (most recently in 2002) there were 54 redevelopment area TIFs and 47 economic development area TIFs in Indiana. By the end of 2002, there were TIF districts located in 58 counties and 96 cities, with total incremental assessed value (AV) of over $4 billion.

TIF revenues have been used to support variety of projects ranging from Circle Centre in downtown Indianapolis or the Subaru/Isuzu joint venture in Tippecanoe County to distribution centers and industrial parks in North Vernon and Rensselaer. In 2002, the largest TIF district in size was in 4,770 acres in Anderson and the smallest, also in Anderson was only 5.5 acres.

### TIF Implementation Process

The Indiana TIF process is formally established in Indiana Code 8-1. First, a redevelopment commission comprised of five members must be established. Then the proposed TIF district must be designated as either a redevelopment area or economic development area. A declaratory and confirmatory resolution establishing the allocation area must be accompanied by a plan for the area. The resolution must provide the general boundaries of the area, define the public purpose that requires the involvement of the redevelopment commission, establish the tax allocation area (TIF), and prepare a plan for development or re-development of the area. The plan should support the findings of the redevelopment commission and include the expected uses of the TIF revenue. The plan serves as the baseline against which improvements can be measured. After, the confirmatory resolution is approved by the commission the project can begin.

## Relevant Statutes

- IC 8-1

## Capacity Recommendations

The community must establish a redevelopment commission. The community may choose to hire outside experts to assist in the process. These experts may include: bond counsel to ensure that all legal protocol is followed, a financial consult to estimate potential incremental assessed value and tax revenue, and/or bond counsel to plan the financing and sale of the TIF bonds.

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## Guidelines / Considerations for Implementation

1. Impact on tax base: Before using TIF a community should consider the short and long-term impact on the tax base. If debt is incurred for 30 years, the property taxes associated with the new development may not be available to traditional taxing units.  If the TIF district only includes real property the increased assessed value attributable to personal property is often substantial enough to offset any increased service costs attributable to the project. If the TIF district includes real and personal property the community should carefully consider how it will address any increased demands for service attributable to the project.
2. TIF and Tax Abatement: Tax abatements are permitted in TIF districts; however the community should carefully consider the impact of combining these two incentives as tax abatement will delay the growth of incremental assessed value.  Because all new assessed value is collected by the TIF district, granting tax abatement within a TIF district has no additional impact on other taxing units.
3. The redevelopment commission is required to notify affected taxing units of their intention to establish a TIF district at least 10 days prior to the public hearing. The notice must be accompanied with an impact statement estimating the effects, if any, of the TIF district on each taxing unit.
4. Auditors and assessors are key local officials in TIF implementation. Each is required to expend additional effort as a result of TIF implementation – the redevelopment commission should seek to develop an effective and efficient relationship with these officials.
5. Changes in assessment practices, tax appeals, and reassessment should be monitored by the redevelopment commission.  Since they all have the potential to affect the amount of tax revenue generated within the TIF district.
6. The inclusion of a second revenue stream or developer guarantee can alleviate risk to the lender and thus reduce the interest rate of the TIF bond(s).
7. TIF is popular because it is one of the few politically feasible mechanisms available to local government that has the potential to finance public investment in infrastructure and other public amenities that leverage new private investment
8. TIF does not count against local debt limits and, in its purest form, TIF uses property tax revenue generated by specific investment to pay for the public investment that made the project possible.
9. When TIF revenues are based on projections of private investment, there is a chance that market changes can slow investment schedules or even cause projects to be eliminated
    a. Because public debt is typically incurred before construction starts for private investment, reductions in project size or delays in private investment will reduce the amount of TIF revenue within the TIF district
    b. Natural disasters, changes in assessment practices, and tax appeals can also affect the amount of incremental assessed value within the TIF districts
10. The state does not provide property tax replacement credits on TIF revenue
11. Increased demand for new local government services associated with the new private investment attributable to the TIF may increase costs for local government, yet a portion of the increased tax base will not be available to the traditional taxing units.

## Example Ordinances

No example ordinances are available for this tool.

## Example Studies

No example studies are available for this tool.

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## Helpful References and Links

No references are available for this tool.

## Helpful Contacts

No contacts are available for this tool.

## Funding Sources

No other funding sources are available for this tool.

## Program Objectives and Issues Addressed

- Economic Development
- Growth Management

## See Also

- Redevelopment Commission
- Economic Development Area
- Tax Abatement